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National Intelligence Daily Cable for Monday, 3 October 1977

The NID Cable is for the purpose of informing senior US officials.

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ISRAEL - ARAB STATES: Relations

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[] Israel's preliminary reaction to the joint US-Soviet statement on the Middle East has been predictably negative. A spokesman for Prime Minister Begin, voicing the government's position, charged that the US move would harden Arab positions still further and make peace in the Middle East more difficult to attain. The Arab reaction thus far has been guardedly positive.

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[] In an interview at the end of yesterday's cabinet meeting, Finance Minister Ehrlich, who presided over the meeting in Begin's absence, totally rejected the statement. He said that it contains "real signs" of an attempt to impose a settlement on Israel, something Israel will not accept. Ehrlich talked about standing fast against US-Soviet pressure to make concessions and hinted that it might be necessary to form a government of national unity during a possible "emergency period."

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[] Israel clearly felt impelled to react strongly, perhaps as much against symbolic aspects of the statement as against what it actually contained. US support for the "legitimate rights of the Palestinians," an Arab formula, is a red flag to the Israelis, even though the statement does not define the US concept of those rights and leaves considerable room for maneuver.

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[] Ehrlich's implied threat to close ranks and resist US pressure to compromise further, especially regarding the Palestinians, serves notice that Israel will not shrink from a confrontation with the US if it considers one necessary.

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[] The Israelis, however, have not yet committed themselves to any particular course of action and appear to be hoping that the US will not force the issue. Ehrlich said he hoped this would not be the last word and recalled that the US and Israel have overcome earlier differences. The Israeli parliament will probably discuss the joint statement at its session opening Thursday.

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[] Former Prime Ministers Rabin and Peres reacted in a similarly negative vein. Rabin called the joint statement "a serious shift in the relations between the United States and

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Israel--a shift with a gravity we have not experienced since the end of the Six-Day War." He predictably blamed the Likud government for the US shift. He recommended that Tel Aviv take the position that, on the basis of the US-Soviet statement, Israel will not go to Geneva.

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[] Arab reaction to the US-USSR statement, almost entirely press commentary, has been guardedly positive. The Arabs are probably reluctant to commit themselves until they have had a chance to consult with one another. The semi-official Egyptian newspaper *al-Ahram* was almost critical. It called the statement a Soviet retreat from its previous support for Palestine Liberation Organization attendance at Geneva. The reaction presumably reflects Cairo's hostility toward the USSR and its nervousness over any development that might enhance the Soviet role in the Middle East.

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[] The Egyptian media have reported that President Sadat instructed Foreign Minister Fahmi, who is in the US, to request a meeting with President Carter to convey the official Egyptian response.

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[] The official newspaper of Syria's ruling Baath Party characterized the joint statement as "largely in harmony with Arab demands," and said it aroused hope that the US would "adopt practical stands and measures" to move Israel toward a just peace. If Syria is really convinced that the US is moving ahead in good faith, it may be more willing to press the PLO to accept UN Security Resolution 242, and thus tacitly recognize Israel's right to exist.

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[] PLO officials called the statement a "positive" move, and the PLO's news agency asserted that it should be followed up by a "frank American recognition of the PLO as the representative of the Palestinians."

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[] The Jordanian cabinet issued a declaration that described the statement a "sound, advanced step" toward resuming the Geneva talks. []

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ARGENTINA: Tension in Government

25X1 [] //The shooting incident involving Argentine warships and Soviet and Bulgarian trawlers over the weekend may have resulted from the increasing pressure on President Videla by his junta partner, naval chief Admiral Massera. Videla has maneuvered cautiously for more than a year to consolidate his political position and enjoys substantial support within and outside the military, but greater friction among the junta members will make it more difficult to agree on and implement national policy.//

25X1 [] Massera, probably to enhance his political prestige, ordered Argentine warships to fire on the fishing trawlers when they were encroaching on the country's 200-mile territorial limit. Whether by coincidence or design, the Navy has lately made a show of appearing to be the leading defender of national sovereignty.

25X1 [] According to unconfirmed press reports, two of the four fishing vessels were badly damaged, and at least one fisherman was wounded. Argentine destroyers had recently seized five Soviet trawlers, an exploit that was highly publicized by the Argentine media. In addition, the Foreign Ministry--controlled by the Navy--delivered a stiff protest to Chile over alleged violations of territorial waters and unauthorized flights over southern Argentina, an area of national sensitivity because of the continuing boundary quarrel with Chile.

25X1 [] Massera will no doubt seek to exploit these incidents. He has already made the pointed declaration that the Navy is prepared to preserve the geographic integrity of Argentina, a self-serving statement clearly designed for domestic political purposes.

25X1 [] Massera has previously tried to unsettle Videla [] 25X1

25X1 [] In recent months, Massera has become openly critical of the administration's economic policies and of statements by Videla alluding to the pre-eminence of the Army. 25X1

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[redacted] Interservice rivalry, particularly between the Army and Navy, is characteristic of the Argentine armed forces, where personal ambitions sometimes aggravate ideological or policy differences. Massera has long disapproved of what he views as the Army's predominance, both in the junta and throughout the government.

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[redacted] In two heretofore rare instances of "going public" on matters related to the internal security situation, the government recently acknowledged that it was detaining a prominent union leader and human rights advocate and also a Jewish family suspected of subversive connections. Such official admissions were seldom made when the government was less attentive to human rights; in the context of Argentine politics the public statements represent a victory for the moderate point of view that Videla espouses.

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[redacted] The consensus within the military for Videla's rule has always been fragile, and with Massera increasingly open in his criticism, the President must move with caution on all fronts to maintain support both for himself and for the Army.

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CHINA: Grain Harvest Prospects

China's grain harvest this year is unlikely to be significantly above the 285 million tons produced in 1976 and thus may not keep pace with population growth for the second consecutive year. Drought reduced production of winter wheat, a shortfall not made up by the early rice crop. Prospects for the fall harvest are mixed; although output will probably increase over 1976, the gain will do little more than compensate for early losses. The Chinese have purchased 7 million tons of grain for delivery this year, compared with 2 million tons delivered in 1976 and 3 million tons in 1975.

The Chinese tightened grain rations and controls over population movements in the areas most affected by the drought. Communist Party cadres, soldiers, and white-collar workers were mobilized to carry water, sometimes over long distances. These labor-intensive methods and the irrigation systems, which the Chinese have expanded steadily over the past 15 years, mitigated the effects of the drought.

Winter wheat, which accounts for 15 to 20 percent of total annual grain output, suffered most from the drought--with output dropping one-tenth, or 4 million to 5 million tons.

The Chinese claim that production of early rice in 1977 equaled the record set in 1976. Even so, the crop was a disappointment to them. Although they report the sown area was up slightly, it would have been higher were it not for the drought. In fact, several provinces have stressed the importance of bringing in bumper late rice harvests to compensate for the lower than desired early rice crops.

The fall harvest, including late and intermediate rice as well as coarse grains, will determine whether increases in food production will match population growth in 1977. The fall grain harvest--which normally accounts for about 65 percent of total annual output, including soybeans and tubers--will probably be larger than last year's but not by much. The Chinese need an increase of 3 percent over the 1976 fall harvest to achieve the same annual total as in 1976--claimed by one Chinese official to have been 285 million tons. An increase of 5 percent

in the late harvest is needed to produce an overall 1.5-percent increase in the food supply that would keep it even with population growth.

25X1 [] The biggest problem so far this fall is in the North China Plain, where about one-half of the coarse grain is grown. Coarse grain and tubers normally account for about 25 to 30 percent of total grain output.

25X1 [] The late rice harvest should be much improved over that of 1976. Intermediate rice should also do well. Growing conditions in Szechwan Province, the largest producer of single-cropped rice, are much improved over 1976.

25X1 [] In the northeast, the environment for fall crops has also improved over last year. Although the drought lingered in the Manchurian Plain during early summer, an above-average rainfall since then has more than compensated for the early dryness.

25X1 [] Since last November, China has purchased 11.7 million tons of wheat for delivery through July 1978. Seven million tons will be delivered during calendar year 1977--a new record for wheat imports and close to the record grain imports of 7.6 million tons in 1973 that included corn.

25X1 [] The Chinese bought large quantities of wheat this year largely because of the reduced winter wheat harvest and the poor fall harvest last year. In addition, probably because of low world prices, the Chinese imported wheat to replenish grain stocks, drawn down in 1975-76 to avoid purchases abroad when the Chinese were facing balance-of-payments problems.

25X1 [] Imports of other agricultural products, including sugar, soybeans, and cotton, also are up. These include a purchase of 180,000 bales of cotton from the US, the first Chinese purchases of US agricultural commodities since 1974. The cotton purchases probably were made to help offset what looks like a third consecutive decline in China's cotton crop. []
-CIA, DIA, NSA-

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USSR - SOUTHWEST PACIFIC: Ports

25X1 [] //The USSR is intensifying efforts to gain a foothold in the South Pacific for its fishing fleet. In recent months,

Moscow has offered to set up joint fishing ventures with Tonga, Fiji, Papua New Guinea, Western Samoa, and New Zealand in return for port facilities and crew transfer bases.//

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[] //Soviet fishing in the South Pacific, especially around New Zealand and Australia, has been increasing in recent years as other fishing areas have become restricted by the worldwide proliferation of 200-mile economic zones. Australia and New Zealand have had only 12-mile boundaries, but on Saturday New Zealand established a 200-mile economic zone. By 1 March all countries in the region will have 200-mile zones.//

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[] //The USSR wants port facilities in the area to refuel and resupply its fishing fleet. The USSR's South Pacific fishing fleet of at least 20 large trawlers now routinely operates south of New Zealand, but the ships are not allowed in Australian or New Zealand ports.//

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[] //The closest port facilities available to the Soviets are in Singapore, where they use repair and drydock facilities on a commercial basis. The USSR has established a joint fishing company in the Philippines but has not yet gained the use of local facilities for its own fleet.//

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[] //New Zealand is considering a recent Soviet overture for the use of on-shore facilities. Moscow offered to establish a joint fishing company, which probably would return part of its catch to New Zealand. As a major inducement, the Soviets are holding out the prospect of continuing their large purchases of New Zealand agricultural goods.//

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[] //Recent visits by several Soviet fisheries research vessels to other areas of the South Pacific suggest that Moscow is trying to expand its fleet operations. The USSR hopes to acquire port rights--necessary for any significant expansion--through joint fishing companies with Tonga and Western Samoa. Both of these island nations have used Soviet offers of fisheries assistance as leverage in negotiating for economic assistance from the West.

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[] //Papua New Guinea has already turned down at least one Soviet offer. Fiji is expecting a new Soviet proposal for a joint company during the Soviet Ambassador to Australia's forthcoming visit. []

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PAKISTAN: Election Postponed

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[REDACTED] Chief Martial Law Administrator Zia-ul-Haq's decision, announced Saturday, to postpone Pakistan's election apparently resulted from the need for time to solve several political problems. The military government still seems to regard itself as transitional, although its actions continue to move it in the direction of permanent rule.

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[REDACTED] Zia said that if the election were held as scheduled on 18 October, a new crisis could ensue. //He is concerned both that widespread violence could erupt and that the nine-party Pakistan National Alliance opposing former Prime Minister Bhutto would be unable to form a stable government, which could open the way for Bhutto's return to power.//

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[REDACTED] The martial law chief has become convinced that Bhutto is a criminal and that his return to power would be disastrous. Bhutto faces a number of charges--including murder--and Zia probably believes Bhutto could not be credibly tried before 18 October. Zia has dropped his plan to try Bhutto in a military court.

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[REDACTED] Zia also wants time for investigations of other candidates. He ordered the investigations last month, but even if they could be completed in time, the possible disqualification of large numbers of candidates at the last minute would complicate the election process.

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[REDACTED] In the past, Zia has expressed doubts about the Alliance's ability to govern. In his speech announcing the postponement, he accused both the Alliance and Bhutto's party of failing to produce a program and of indulging in "provocative statements."

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[REDACTED] //Zia may plan to release Abdul Wali Khan, who was jailed by Bhutto on charges of plotting the secession of Pakistan's two westernmost provinces. Wali is a more charismatic figure than the present Alliance leaders, but his return to active politics might well increase strains within the Alliance.//

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25X1 [] The military leaders have not established a new date for the election, but there is some speculation it will be held in March. Zia has acknowledged that the task of returning Pakistan to democracy is more difficult than he expected when he seized power in July. It might be as difficult in March. []

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BANGLADESH: Armed Forces Restive

25X1 [] //The attempt by some military officers to overthrow the government in Bangladesh yesterday had little popular or military support but reflects continued unrest in the armed forces.//

25X1 [] //The most recent trouble began several days ago when troops stationed about 250 kilometers northwest of Dacca mutinied over a pay dispute. Some troops in Dacca, and possibly in the southern port of Chittagong, also rose, but it is still unclear whether the incidents were coordinated.//

25X1 [] //The rebels may have been trying to take advantage of the mutinies and of the preoccupation of officials with the hijacked Japanese airliner. The rebels seized the radio station and the airport control tower--temporarily interrupting negotiations with the hijackers--but the government restored order and appeared to be in complete control within a few hours.//

25X1 [] //Military pay is low, the armed forces are divided into several contending factions, politicking among senior officers for the job of Army commander--still held by President Ziaur Rahman--is intense, and leftists and other agitators have tried to exploit the situation to bring down Zia. The result has been low morale, lax discipline, several mutinies or near mutinies this year, []

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25X1 [] //The rebellious officers presumably failed both because they planned poorly and because the bulk of the armed forces remain loyal to Zia. The conditions which led to the attempt, however, remain, and it may be only a matter of time before another group of officers decides to attempt to seize power. []

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UK: Reflationary Package Expected

//The British Government indicates that it will propose a modest package of reflationary measures some time after the opening of the Labor Party conference today. The economic stimulus resulting from the new package--which probably will focus on cuts in income taxes and further measures to curb unemployment--may amount to as much as \$1.7 billion. Additional aid for the hard-pressed construction industry also seems likely. While the fiscal stimulus would add an estimated 1 percent to economic growth next year, it would reduce by half the anticipated \$3-billion surplus in Britain's current account.//

//Austerity measures and pay curbs resulting in a decline in workers' real income have slowed Britain's economic recovery this year. Real output is expected to increase by only about 1 percent in 1977, compared with 1.5 percent in 1976.//

//Despite the government's introduction of various measures designed to create jobs, unemployment currently stands at a postwar high of some 1.5 million and probably will continue to rise. Recent labor force projections provide little comfort; they indicate that the number of new workers entering the job market between now and 1981 will be nearly 40 percent larger than the influx in the preceding four years.//

//Because the direct tax burden is so high in Britain, the government may decide to cut the basic personal income tax rate. A reduction in tax rates for those in the higher income brackets is also possible. The basic rate was reduced from 35 to 34 percent in July. The threshold income level for higher marginal tax rates may be moved further upward to provide an added incentive to middle income earners.//

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[] //An increase in personal tax exemptions seems less likely; they were recently raised and will increase automatically in future years because of recent legislation indexing exemptions to the rate of inflation. Tax changes would take effect in the fiscal year beginning 1 April 1978.//

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[] //In addition to the tax adjustments, the Callaghan government probably will announce some new employment measures. It will probably extend the temporary employment subsidy that ends in March. As another means of generating employment, the government may channel additional funds into construction, possibly for various inner city projects. Additional grants for industrial investment also may be included to spur on the long-awaited recovery in manufacturing investment.//

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[] //The UK seems to have leeway to introduce a modest reflationary package and still meet the terms of last December's loan from the International Monetary Fund. In the first quarter of this fiscal year, public sector borrowing was well within the stipulated limit. Taking into account the tax cuts introduced in July and London's recent sale of British Petroleum shares, the borrowing requirement for the entire year should be in the range of \$13.5 to \$14.5 billion. The stipulated ceiling is \$15 billion.

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ITALY-USSR: Labor Relations

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[] *The Communist-dominated Italian General Confederation of Labor is threatening further to loosen its ties with the Soviet-led World Federation of Trade Unions. The international secretary of the Italian confederation suggested last week that it is ready to shift from associate to observer status if the Soviets fail to take Italian criticisms into account.*

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[] Officials of the Italian labor group, who were in Moscow last week to attend a preparatory meeting for the federation's 1978 congress, are criticizing the WFTU's platform because it overlooks labor problems in the USSR and Eastern Europe while it spotlights those in the West.

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[] The Italians also want the federation to move its congress from Prague to a Third World site because they think their presence in Czechoslovakia on the 10th anniversary of

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the Soviet invasion would suggest they endorse Moscow's action--which the Italian Communists continue to condemn in strong terms.

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[] Relations between the Italian confederation and the WFTU--which has a membership 90 percent East European--have deteriorated sharply since the invasion of Czechoslovakia. In 1973, the Italians downgraded their membership from regular to associate status as part of a successful effort to gain admission to the non-Communist European Trade Union Confederation. In addition, the Italian group has pulled its members out of policy-making posts in the WFTU and sharply reduced the dues it pays.

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[] The Italians seem unlikely to make a final decision on a further lessening of ties before the next meeting of WFTU representatives in Budapest on 26 October. []

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CHINA: Science and Technology

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[] Differences over the proper focus of scientific and technical work in recent editorials in China's leading party and army newspapers underscore the competing needs of military and civilian modernizers. The renewed drive to upgrade China's scientific and technological efforts may lead to disagreements between military and civilian planners--and among military planners--over which programs to include in a national science and technology program.

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[] The editorials, which appeared in *People's Daily* and *Liberation Army Daily*, were prompted by a party circular released two weeks ago that announced plans to hold a national conference on science and technology next spring.

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[] The circular and both editorials demonstrate that civilian and military leaders alike recognize the importance of scientific development as a foundation for modernization. The *People's Daily* editorial, however, noted that scientific progress will boost modernization across the board but did not emphasize military modernization.

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[] *Liberation Army Daily* acknowledged the role of science and technology in economic development, but reserved an "important component" for national defense and stressed the contribution science makes to defense modernization.

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[] Peking may hope to resolve any differences over science programs before the conference next spring. The circular ordered all scientific and technical units to submit development plans to a newly re-established State Scientific and Technological Commission.

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[] Re-creation of the commission, abolished during the Cultural Revolution, may be a sign of civilian concern that scientific progress would be directed primarily toward military needs. The commission, which will probably be controlled by civilians, parallels the military's National Defense Science and Technology Commission. The head of the renewed commission has not yet been identified but the leading candidate seems to be Fang I, a civilian and China's highest ranking science administrator.

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[] A re-emphasis on civilian programs would rectify a weakness in China's overall economic development that has existed since the Cultural Revolution when civilian research institutes and scientists bore the brunt of radical political excesses.

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[] The military modernizers are likely to defend their current programs and future plans with special vigor. Decisions made now on military research, development, and production projects will affect the nature and quality of China's armed forces for years.

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[] The urgent note struck by *Liberation Army Daily* may also indicate that the military is pushing for rapid completion of the national scientific and technological plan.// After a year of study, the military seems on the verge of committing itself to acquiring new weapons technology abroad.// The Chinese will need to develop new manufacturing and military skills, however, before they can take advantage of foreign advanced technology.

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BRIEFS

France:

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[] The latest French public opinion poll confirms that the Communist - Socialist - Left Radical alliance has lost support since its near rupture on 21-22 September over updating its Common Program for Governing. The poll, taken last week,

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showed 52 percent of those questioned would vote for the Left if the legislative election were held now and 48 percent for the governing center-right majority.

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[redacted] The last poll by the same organization, taken in early September before the Left's talks collapsed, showed the two sides at 54 and 46 percent respectively. Another reputable polling organization, which had reported a 53-47 margin for at least six months, showed a one-point drop for the Left in its most recent poll, taken between the two rounds of the Left's unsuccessful talks last month.

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[redacted] Because of the effects of gerrymandering, the Left probably will have to receive more than 52 percent of the votes next March if it is to win. The results of the polls and the high level of voter interest--almost two-thirds of those polled claimed last week to be "actively following" the feud--will highlight for the Left's leaders the stakes for which they are playing. This will not, however, make easier any efforts to resolve their serious, highly publicized differences.

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Cambodia - North Korea:

25X1 [] Cambodian Prime Minister Pol Pot is following up his visit to China with a trip to North Korea. Next to the Chinese, the North Koreans have been Cambodia's closest supporters, and there are some indications the Khmer have closer relations with the equally tough-minded North Koreans than they do with the more moderate Chinese.

25X1 [] Peking has apparently advised the Cambodians to show restraint, but the Chinese counsel thus far has fallen on deaf ears. Officially, however, the Cambodians give diplomatic precedence to the Chinese over the Koreans because China provides more assistance and is more valuable as a political patron.

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